

U.S. Embassy Seoul
Economic Official Background Briefing
June 13, 2005

MODERATOR: Thank you all for joining us – some familiar faces and some new faces. We're here this afternoon for a background briefing on economic issues. Since it is on background, we would ask that you use the attribution U.S. Embassy Economic Official.

Would you like to open with any remarks?

US EMBASSY ECONOMIC OFFICIAL: Sure.

MODERATOR: After that, we will get to your questions.

US EMBASSY ECONOMIC OFFICIAL: The purpose of today's background briefing, which I think you already know, is to let you all know a little bit about the Quarterly Trade Meeting which will take place on Thursday here in Seoul.

Those of you who are familiar with this process, know that we have these talks called the Quarterly Trade Meetings because we have the meetings every quarter to review outstanding trade issues in the bilateral trade relationship and resolve the issues going both directions.

The last meeting was in late March. We're just about right on schedule, every three months.

The agenda for this meeting on Thursday – I'll mainly review the things that the United States has proposed for the agenda this time – and I'll read those to you. This is just in the order that they appeared during the course of the day.

The first item is agriculture. Under that issue we will be, of course, addressing the ban on imports of U.S. beef to Korea.

In the other direction we'll be fielding questions on I believe paprika and oranges.

The second item on the agenda is the dreaded screen quota question. Following that there's discussion of regulatory reform and transparency issues and then intellectual property rights.

In the afternoon, we'll raise automobile issues. Some of these I think will be familiar to those of you who follow these questions or issues related to standards – Korean automobile standards as they affect imported automobiles – and issues related to taxation.

Following that will be a discussion on issues in the pharmaceutical sector -- including questions of regulatory transparency again – dealing with malfeasance and corruption in

the pricing of pharmaceuticals and transactions between pharmaceutical manufacturers and purchasers.

Finally, there's the telecommunications questions. In that area we will be focusing on access to telecommunication services in Korea.

So, a fairly straightforward agenda – not particularly exciting but you all might want to know. I appreciate people coming out and I'm ready to take questions.

MODERATOR: We're ready to take your questions. If you can please identify yourself at the beginning.

QUESTION: I am Hong Byung-ki of the JoongAng Daily. Recently there has been a cow discovered in the U.S. that is suspected of being contaminated with BSE and this is causing some serious discussion on the resumption of imports of American beef to Korea. What do you think the prospect is on this issue?

US EMBASSY ECONOMIC OFFICIAL: I kind of had a hunch that you would ask about that (laughter). I think the most important thing to emphasize is the discussion, which we found to be extremely useful, between the two governments is now quite detailed in the discussion of scientific safety issues related to beef.

We've had now three detailed technical meetings between Korean scientists and U.S. scientists that are experts on the BSE question. Those discussions, I think if you add them all up, add up to hundreds of hours of scientists' time being devoted to this issue by both sides.

The most recent discussions were with a team of Korean scientists that traveled to the United States last week and were in Omaha, Nebraska – not the best place to be in the world in June – but a place where there are a lot of cows and a lot of facilities to visit. They had both onsite visits and technical discussions with the U.S. side.

The focus of the discussions, I wasn't participating obviously, but as I understand it, was on precisely how the United States ensures that the beef we would export to Korea would have no traces whatsoever of BSE in it.

There are several ways that this is done. I think some of you have heard briefings on this before, but the first step is a very comprehensive testing system. The United States have tested, over the last two years, 375,000 cattle. There was one which was confirmed positive from Washington State. Now there's another which was announced by the U.S. Department of Agriculture Friday night as we're not sure.

So testing is an important aspect. The second aspect is making sure the feed that goes into the animals is safe. The way you do that is by making sure that there is no animal protein in the feed. That has been the case in the United States now for close to eight years.

The next aspect is looking at the age of the animals. There's the World Organization for Animal Health which for some reason has an acronym OIE... because it's French. There you go. (Laughter) Anyways, there's this organization, we call it the World Organization for Animal Health, which has come up with the guidelines indicating that based on the fact that no cattle under the age of 30 months has ever been discovered and confirmed to have BSE – that animals younger than 30 months should be considered safe anywhere. The U.S. proposes to export beef to Korea only from cattle which are under 30 months old.

The final safety measure is also an important one, which is that all animals that are exported to Korea or to other countries would be butchered or slaughtered in such a way that all these things called specified risk materials – the parts of the animal where BSE can gather – would be removed so that the beef which would be exported is only from parts of the animal in which there has never been BSE found, basically muscle meat.

So where does this leave us with this newest, latest announcement from the U.S. Department of Agriculture? It's kind of unfortunately timed for us out here in Asia because it was on a Friday night in the States which means that over the weekend there hasn't been a chance to gather as much news from the States.

But I would refer you to a document – actually I have the release number here – on the U.S. Department of Agriculture website. It's release number 0206.05 – very romantically named release from Dr. John Clifford. He's the chief veterinarian for the U.S. Department of Agriculture addressing this particular issue.

Basically what this says is something which, when you think about it from a scientific perspective, is true, is that finding another animal is not a surprise. 375,000 tests is a lot of tests and a lot of checking of tests and testing of tests and lots of confirmations being made. Basically what Dr. Clifford was saying in his announcement is that he's not particularly surprised.

But he also makes the point, that I believe is right, that the finding of this newly inconclusive result of this one animal doesn't really affect the fundamental conclusion that U.S. beef is safe.

This was from an old animal. I don't unfortunately... I was looking around trying to find out exactly how old and I'm sure it'll be in the newspapers in the states tomorrow or the next day. The statements from the USDA indicate it was rather an ancient beast.

So basically this animal was headed for the leather factory or someplace like that when it was discovered. It was not going to be in any way sent to the human food system.

And then there's also the additional safeguards as I mentioned of removing parts of the animal which would have a possible problem.

I got really fascinated and read even more about this and we will give you a copy of this. It turns out there were three animals that were under review as inconclusive. They first

tested, and this is taking place over the course of about a year, because these tests take time – three animals which were initially tested inconclusive according to what's called a rapid test.

So they retested all three of them using another test called IHC, I don't know what that means, but according to the IHC test, they were all negative.

Part of the U.S Department of Agriculture said, "This is strange. We're getting one inconclusive result and one very clearly negative result. Let's test them again using a third test called the Western blot test."

This is a very complicated kind of test that's used to actually confirm people who have, for example, HIV AIDS and other relatively complicated diseases.

But according to this test, two of the animals came up again firmly negative and animal number three came out what's called a weak-positive.

So on the website there's a journalist interviewing Secretary Johanns trying to figure out what's a weak-positive. Well, it turns out that a weak-positive means that they were able to get a positive result by taking the tissue to be tested and concentrating it 20 times the normal level of concentration in order to come up with a positive result.

Now, you've got one inconclusive, one negative, and one weak-positive. What do you do? They're going to ship what's left of this poor, dead animal – it's been dead for some time now – to England because England is the world's expert on BSE. There's a laboratory in Weybridge England which is the definitive laboratory which will do a study of this tissue and try and find out once and for all whether or not this animal had BSE.

So why did I put you through this long, scientific story? The point I'm trying to make is there is considerable effort, scientific effort, serious people working on this to make sure that U.S. beef is safe. The reason for that is there are 285 million American consumers that want their own beef to be safe and are demanding that level of close attention to protection of consumers. That's the same protection we intend and propose to give to Korean consumers as well.

Sorry, that's probably enough beef for now. Unless there's more beef? Where's the beef? (Laughter)

MODERATOR: Other questions?

QUESTION: You said that 285 million American consumers are also interested in the safety of American beef...

US EMBASSY ECONOMIC OFFICIAL: There's probably some who are vegetarian. (Laughter)

MODERATOR: You did say that.

US EMBASSY ECONOMIC OFFICIAL: I did say that. That's right.

QUESTION: Also, you have emphasized in your last quarterly meetings the safety of American beef but I believe there is a big difference between what is relatively safe and what is safe. In the case of Korean consumers, they have alternative choices such as beef from Australia so it is obvious that Koreans are very much interested in the difference between what is relatively safe and what is just safe. Also, I think the United States is approaching this matter in just economic terms, where as in Korea, Korean consumers tend to be more sentimental or there is an emotional aspect to this. What do you think about this?

US EMBASSY ECONOMIC OFFICIAL: I think the U.S. is not approaching it in economic terms. We're approaching it in scientific terms. The American consumer is, trust me, very concerned about what goes into their stomachs. We have a consumer lobby which is extremely forceful and very outspoken. They are fairly unforgiving of mistakes by the government which is why the government is so careful. It's really driven by science, I think is the issue. I don't know whether addressing the issue in an emotional, I'm not sure exactly what you mean by that, but I think the American approach to the issue is definitely one based on science.

You talked about relative safety and absolute safety, I think couple things. One is that there is no such thing as absolute safety on any food product from any country. In relative terms, I think that U.S. beef is just as safe as beef from any other country because of the reasons I explained to you, the system that we have in place to make it safe.

No human being has ever gotten BSE in the United States. That to me indicates a fairly profoundly risk-free environment.

At the same time, there's probably, I don't know I'm not a public health expert, but I imagine there are hundreds of people who have killed themselves in the kitchen by preparing some food incorrectly. They boiled their beans wrong, or they ate something that was in the refrigerator too long and they got sick and died. It happens all the time, it's very sad, but it's a risk every time you take in food, there's no such thing as absolute safety.

It can happen to anyone. I got my friend sick in high school because we were camping and we had eggs and they weren't refrigerated and I made an omelet for him and he got sick and had to go to the hospital. These things happen.

He did forgive me but it took a little while. (Laughter)

QUESTION: The Ministry of Agriculture and Forestry in Korea has asked the U.S. to provide detailed information on BSE. Secondly, in the third technical meeting with the scientists going over to the United States, the Korean side has requested that the United

States maintain the random testing that are being conducted on U.S. beef. So what is the response from the U.S. on this issue?

US EMBASSY ECONOMIC OFFICIAL: I'm sorry I don't know the details of the discussion. I haven't seen the report on the meetings in Omaha. I don't doubt that your information is correct, but I'm still not...

QUESTION: I am from the Hankook Ilbo. You talked about regulatory transparency. On what specific sector are you talking about? What regulations and what sector are you talking about? You also mentioned the telecommunications sector. I'm not familiar with the trade issues in the telecommunications sector so can you elaborate on that?

US EMBASSY ECONOMIC OFFICIAL: On regulatory transparency, we have a couple of different approaches to the issue. One is to discuss ways in which overall systematic transparency can take place. We've given some suggestions to the Korean government on ways in which the, how to describe it, the transparency guidelines which are issued by the Ministry of Government Affairs are followed. That's not very clear so I'll clarify it.

For example, according to the Administrative Procedures Act, there are specific guidelines the ministry should follow for public comment procedures, for notifying stakeholders of intended policy changes. Often, those procedures are followed but sometimes they're not. There are mechanisms which have been used in some other countries – and this is often discussed in the OECD – to sort of improve the performance of ministries following the central guidelines. That's the sort of thing that we want to discuss in a generic sense.

Basically, the requirements in the Administrative Procedures Act are state-of-the-art requirements. They're very good ones. The question is ensuring consistent performance to those standards amongst the different ministries.

In a sector specific sense, the issue of pharmaceuticals regulations is one that particularly affects American companies doing business in Korea. So we will also have a discussion on transparency focusing specifically on the pharmaceuticals sector.

One of the issues is just getting more feedback from the regulatory ministries. The drug companies sometimes submit new drugs for approval or submit pricing plans to the ministries. They get a response – sometimes it's "yes" there's no problem but sometimes it's "no" without any real kind of clarification of why. Getting a better sense of why these decisions are being made can then help them try again or improve their procedure or respond appropriately. So that's the kind of thing that we are sort of looking to discuss.

On telecommunications, there's a couple of issues, the most important of which is that we're really hoping that Korea can lift the limit on foreign ownership in the telecom sector. It's currently at a 49% limit. Regardless of whether there any firms that are sort

of imminently planning on investing past 49% or not, I don't know of any that are, but having that sort of limit removes flexibility of foreign telecommunications firms in thinking about how they might be able to participate in the Korean market.

This is something that foreign companies are able to do in the United States, which is own and manage telecommunications services companies. There are some restrictions but it's generally quite liberal.

QUESTION: Do you mean that the U.S. would like to lift the limits on the foreign ownership of telecommunications company, to lift entirely, and the second question is on the auto issue, could you please elaborate?

US EMBASSY ECONOMIC OFFICIAL: The best thing would be that there'd be no limits at all. So yes, completely lifting limits on foreign ownership would be optimal, but it's a discussion.

On automobiles, the standards issues that we've been addressing relate to things like emissions standards, how emission testing is done, and questions like the fuel economy of automobiles.

QUESTION: Are you asking to continuously lower tariffs on automobiles?

US EMBASSY ECONOMIC OFFICIAL: Taxes or Tariffs?

QUESTION: Tariffs.

US EMBASSY ECONOMIC OFFICIAL: Yes to both. You only asked about tariffs, but as for taxes, lowering those would be good, too. Korea has a fairly high tariff on automobiles at 8%. It is an extremely successive automobile manufacturer. It sold – I've forgotten the exact number, but something like 700,000 cars were made in Korea and sold in the United States last year. We sold about 3,000 here. We can get you the exact figures if you want. In that kind of environment, having a high tariff just seems kind of unusual.

On the issue of taxes, it's not just that automobile taxes in Korea are fairly high -- that (the automobile tax) affects all manufacturers, not just imported manufacturers -- but the way the taxes are assessed is kind of a problem from the point of view of importers.

One problem is that the taxes are generally assessed on the price of automobiles including the tariff. What that means is that if you have, say, roughly 50% tax on an automobile and an 8% tariff, then in effect the tariff is 12% because you have 8% plus another 4%.

When you get up to a differential that large, 12%, it actually has a pretty significant impact on competitiveness.

The other tax issue is that taxes in Korea are, a lot of them anyways, are assessed based on the size of the engine, and not necessarily emissions or fuel efficiency or that, things that are direct measurements of environmental impact of the vehicle, but rather engine size and the vehicles which the United States tends to be most competitive in a relative sense in Korea happen to be ones with large engines and so that that system of taxation tends to hurt the American importers.

By way of reference, our tariff in the United States is 2.5% and our system of taxation is based only on the value of the automobile.

I'll give you an example, there are very luxurious automobiles with small engines, and the U.S.'s sort of philosophy is that if someone can afford a Lamborghini, they should probably pay their tax based on how much they paid for that rather than the size of the engine.

My assistant just pointed out that a Lamborghini is not a good example because it actually has an enormous engine. What's a good example? I mean, there are a Porsche, or a Mercedes, or Lexus... a very luxurious high-class car but a relatively small motor.

QUESTION: In the agriculture sector you brought up oranges, and another fruit that is being raised by the South Koreans...

US EMBASSY ECONOMIC OFFICIAL: Paprika.

QUESTION: Yes, paprika. Can you provide some more details about that?

US EMBASSY ECONOMIC OFFICIAL: I'm not supposed to present Korean issues, but essentially the Korean side is asking us to accelerate our review of the risk assessment to make sure that those items, if imported to the United States, would not pose a problem from pests.

All countries do these risk assessments and everyone else is always trying to urge everyone else to hurry up, and that is what's happening in this case.

QUESTION: I am Im Sang-gyun of the Maeil Kyongje. First question is FTA between Korea and the U.S. going to be discussed or not at the quarterlies. Second question is I would like to have a specific example, if there is any, whether there has been a case of U.S. or foreign pharmaceutical company trying to establish a manufacturing base in Korea but couldn't because of regulations.

US EMBASSY ECONOMIC OFFICIAL: Let me think about that one. On the FTA, no, we won't be specifically discussing the possibility of an FTA at the meeting on Thursday. However, the resolution of the type of issues that we will be discussing on Thursday are considered by both sides to be building blocks, if you will, improving the situation and the resolution of these issues make it easier for us to consider deepening our economic relationship, including through FTA talks.

On the question about the FTA, there's been obviously discussion going on, but no, I think, commitments have been made by either side.

On that, I'd refer you to... I don't know if any of you were able to travel to Jeju, but Ambassador Portman from USTR spoke on that question in his press briefing as well. I think that's available online.

On the question of the pharmaceuticals issue, it's not so much of a problem of using Korea's manufacturing location. Some of the multinational pharmaceutical companies do some of their drug manufacturing here; others choose, for business reasons, to import all of their products that they sell here on the local market.

However, in general terms, obviously regulatory obstacles that restrict access to the market or restrict the ability of pharmaceutical companies to operate competitively here will have an impact on whether they decide to locate their manufacturing facilities here or elsewhere. If the regulatory regime is made more efficient and more transparent, thereby increasing the size of the market for these firms, then it's possible that more would choose to locate here in order to serve the market more effectively.

You know, given Korea's level of scientific expertise and clear commitment to biological sciences and development of biological sciences by the government, Korea has potentially a very bright future as a base for research and development and manufacturing in pharmaceuticals, so it'd be our hope that some of these regulatory reforms would complement that desire to have that sector be very competitive.

The other issue is one of intellectual property rights protection. Again, it relates to the development of the industry. Korea's got a fairly good record on intellectual property rights, as it relates to protection of industrial secrets, so that's actually a strength in Korea's favor.

Particularly, when compared to some of Korea's competitors in the region, like the big Western economy located across the Yellow Sea... (Laughter) China.

MODERATOR: Any last questions?

QUESTION: The issue of screen quota and the anti-corruption in pricing of pharmaceutical products has been much discussed in the past. I would like to ask whether there will be specific suggestions or requests at the Quarterly Trade Talks.

US EMBASSY ECONOMIC OFFICIAL: Well, on pharmaceuticals... There's been discussions on anti-corruption measures in the pharmaceutical sector and there are proposals which were submitted from the Ministry of Health and Welfare to the Korean Independent Commission on Anti-Corruption. Is that right, Anti-Corruption Commission? Commission on Anti-Corruption? KICAC. We'll be asking whether there has been follow-up to this, recommendations, and what the progress is and trying to get some of that going forward.

On the screen quota, same old story. It's been five years ago now, six... it's still 2005, right? We're hoping to see this unnecessary quota reduced to a lower level, and we've been sort of asking that for a long time now. I don't have any news on the topic, it's as I've said, I think to this group, some of you are new, it's an issue that has particular resonance in the U.S. because it's the issue that our attempt to negotiate a Bilateral Investment Treaty got hung up over and there was a pledge to lower the quota, which was then retracted, so it kind of is a stumbling block in trade relations.

MODERATOR: Other questions?

US EMBASSY ECONOMIC OFFICIAL: Everyone happy? (Laughter)

MODERATOR: All right. Thank you all very much for coming. Let me just remind of the attribution of U.S. Embassy Economic Official, if you please.